

**MILFORD MUNICIPAL UTILITIES**

**INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
JUNE 30, 2012**

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MILFORD MUNICIPAL UTILITIES  
MILFORD, IOWA

JUNE 30, 2012

OFFICIALS

After January 1, 2012

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
James Studer	Trustee	December 31, 2013
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
Keith Wurtz	Trustee	December 31, 2014
Tom Cooper	Trustee (Chairman)	December 31, 2015
Lisa Duffy	Trustee	December 31, 2017

Before January 2012

James Studer	Trustee	December 31, 2013
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
Keith Wurtz	Trustee	December 31, 2014
Tom Cooper	Trustee (Chairman)	December 31, 2015
Don Olsen	Trustee	December 31, 2011

Eric Stoll	General Manager
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Paula Nordblad	Office Manager / Board Secretary
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited the accompanying financial statements of the business-type activities and each major fund of Milford Municipal Utilities (Utilities), a component unit of the City of Milford, as of and for the year ended June 30, 2012, which collectively comprise Milford Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Utilities' June 30, 2011 financial statements; and, in our report dated October 31, 2011, we expressed qualified opinions on the respective financial statements of the business-type activities and each major fund due to the omission of certain other post-employment benefit (OPEB) information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Milford Municipal Utilities at June 30, 2012, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *General Auditing Standards*, and should be considered in accessing the results of our audit.

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 7 and 28 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. The 2012 supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2012 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 supplementary information included in Schedules 1 and 2 is fairly stated in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Utilities' basic financial statements for the year ended June 30, 2011 which are not fully presented with the accompanying financial statements. In our report dated October 31, 2011, we expressed qualified opinions on the respective financial statements of each major fund. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utilities' financial statements as a whole. The 2011 supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 supplementary information included in Schedules 1 and 2 is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

*Wintner, Stare & Co., LLP*

October 19, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Milford Municipal Utilities (MMU) provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2011 - 2012 FINANCIAL HIGHLIGHTS

- MMU's operating revenues increased .53 %, or \$18,665, from fiscal 2011 to fiscal 2012.
- Operating expenses increased by \$104,843 in fiscal 2012 from fiscal 2011.
- The MMU's net assets increased 3.48%, or \$331,910, during 2012.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the MMU's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of MMU as a whole and present an overall view of MMU's finances.

Fund financial statements report MMU's operations in more detail by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to MMU's budget for the year.

The Supplementary Information in Schedules 1 and 2 provides detailed information about the usage levels of each utility.

### REPORTING MMU'S FINANCIAL ACTIVITIES

#### Fund Financial Statements

Milford Municipal Utilities utilizes proprietary funds to account for MMU's Enterprise Funds. Enterprise Funds are used to report business type activities. MMU maintains two Enterprise funds to provide separate information for the electric and water funds, which are considered to be major funds of MMU.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in net assets.

Net Assets of Business Type Activities		
Year Ended June 30,	2012	2011
Current and other assets .....	\$ 2,555,941	\$ 2,532,884
Capital assets - net of depreciation .....	<u>11,440,826</u>	<u>11,907,410</u>
Total assets .....	<u>13,996,767</u>	<u>14,440,294</u>
Long-term debt outstanding .....	3,843,523	4,454,507
Other liabilities .....	<u>286,571</u>	<u>451,024</u>
Total liabilities .....	<u>4,130,094</u>	<u>4,905,531</u>
Net assets:		
Invested in capital assets .....	7,597,303	7,452,904
Restricted .....	316,885	217,627
Unrestricted .....	<u>1,952,485</u>	<u>1,864,232</u>
Total net assets .....	<u>\$ 9,866,673</u>	<u>\$ 9,534,763</u>

Changes in Net Assets of Business Type Activities		
Year Ended June 30,	2012	2011
Revenues:		
Total operating revenues .....	\$ 3,572,904	\$ 3,554,239
General revenues:		
Interest and other income .....	<u>13,291</u>	<u>18,931</u>
Total revenues .....	<u>3,586,195</u>	<u>3,573,170</u>
Program expenses:		
Business type activities .....	<u>3,254,285</u>	<u>3,142,043</u>
Total expenses .....	<u>3,254,285</u>	<u>3,142,043</u>
Change in net assets .....	331,910	431,127
Net assets - beginning of year .....	<u>9,534,763</u>	<u>9,103,636</u>
Net assets - end of year .....	<u>\$ 9,866,673</u>	<u>\$ 9,534,763</u>

## **INDIVIDUAL MAJOR FUND ANALYSIS**

- Electric Fund revenues showed a decrease of \$85,399 due to decreased sales to customers because of the mild winter and decreased commercial and demand sales because of a shutdown of production at two manufacturing plants. The Electric Fund operating expenses increased \$67,566, attributable to the increase in expense associated with Neal 4, Cat Maintenance, community development and depreciation. The ending fund balance was \$6,843,217, an increase of \$213,208 from last year.
- Water Fund revenues increased by \$104,064 during 2012 as compared to 2011. Operating expenses increased \$37,277, which can be attributed to maintenance and depreciation as compared to the prior year. The ending fund balance was \$3,023,456, an increase of \$118,702 from the prior year.

## **BUDGETARY HIGHLIGHTS**

MMU's disbursements for business type activities did not exceed the budgeted limit for 2012.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2012, MMU had approximately \$11.4 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net decrease (including additions and deletions, net of depreciation) of \$466,584 or 3.92% as compared with last year. Depreciation charges totaled \$523,609 for the fiscal year 2012. Total accumulated depreciation was \$10,129,542 at June 30, 2012. See Note 3 to the financial statements for more information about MMU's capital assets.

### **LONG-TERM DEBT/LIABILITIES**

At June 30, 2012, MMU had \$3,843,523 in revenue bonds outstanding compared to \$4,454,507 at June 30, 2011. Additional information about MMU's long-term debt is presented in Note 4 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

MMU completed the construction of a 69kV transmission line in November 2011. This will give the community a second source of power coming from the south. Cornbelt shared in the cost of this project.

In order to comply with EPA mandates, MMU is expecting to be required to install catalytic converters on the three newer generators at a cost of \$300,000. In addition, MMU's portion of the cost to install scrubbers on the stacks at Neal #4 is expected to be \$900,000.

MMU is beginning to investigate the impact that an infestation of the invasive Zebra Mussel will have on our water source.



The MMU Water Department and the City of Milford are in early discussions regarding a utility and street upgrade on H Avenue. The estimated cost to the Utilities would be approximately \$300,000. The time frame is yet to be determined. In addition, we are doing a study in conjunction with the City of Milford to coordinate the replacement of water mains with the streets and sewer lines that need to be replaced.

Consistent with the need to invest for the future, MMU joined with other cities and utilities in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight 47 years ago to invest in renewable energy. In 1976, MMU power supplies were once again getting tight and MMU needed to invest in an additional power source, so MMU became one of the owners of the Neal #4 Generating Station south of Sioux City. In 1997, MMU added 6 MW of diesel generators to the existing 1 MW of older generation in our local power plant, of which all are used for peaking and emergency power use. Once again, MMU joined with other Iowa utilities to take the lead in partnering in renewable energy sources by moving into wind generation. MMU has a share in the Hancock Wind Farm that was put up in 2005 south of Ventura, Iowa. MMU also has a share in the Crosswinds Wind Farm south of Ruthven, Iowa. This amounts to a combined total of 40% for renewable energy. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. Even with the additional wind resources, MMU will still need a reliable baseload or intermediate resource to cover our expected load growth, replace existing aging power supplies, and to cover periods when the wind doesn't blow. MMU is now exploring other options to ensure a safe, reliable backup to wind generation. This includes possible agreements with other power suppliers and the installation of natural gas powered turbines.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Ave., Milford, Iowa 51351.

## **BASIC FINANCIAL STATEMENTS**

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF NET ASSETS  
JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

	<u>Business-Type Activities</u>	
	<u>2012</u>	<u>2011</u>
ASSETS:		
Cash and cash equivalents .....	\$ 892,739	\$ 1,019,178
Accounts receivable .....	425,689	368,848
Inventory .....	518,377	550,731
Other current assets .....	112,250	100,355
Restricted assets .....	583,309	462,448
Other assets .....	23,577	31,324
Other assets not being depreciated .....	116,798	2,960,448
Capital assets being depreciated - net of accumulated depreciation .....	<u>11,324,028</u>	<u>8,946,962</u>
TOTAL ASSETS	<u>13,996,767</u>	<u>14,440,294</u>
LIABILITIES:		
Accounts payable .....	169,960	307,773
Accrued interest .....		14,473
Salaries and benefits payable .....	33,984	55,470
Accrued expenses .....	33,612	31,442
Consumers' deposits .....	40,557	41,866
Long-term liabilities:		
Due or payable within one year:		
Revenue bonds/notes .....	580,703	485,772
Due or payable after one year:		
Revenue bonds/notes .....	3,262,820	3,968,735
Net OPEB liability .....	<u>8,458</u>	
TOTAL LIABILITIES	<u>4,130,094</u>	<u>4,905,531</u>
NET ASSETS:		
Invested in capital assets - net of related debt .....	<u>7,597,303</u>	<u>7,452,904</u>
Restricted for:		
Debt service .....	64,630	64,388
Capital projects .....	<u>252,255</u>	<u>153,239</u>
Total restricted	<u>316,885</u>	<u>217,627</u>
Unrestricted .....	<u>1,952,485</u>	<u>1,864,232</u>
TOTAL NET ASSETS	<u>\$ 9,866,673</u>	<u>\$ 9,534,763</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

	<u>Business-Type Activities</u>	
	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Residential .....	\$ 1,553,458	\$ 1,566,260
Commercial .....	872,825	860,383
Demand .....	477,144	508,696
Tank lot water sales .....	709	722
Meter sales .....	11,781	9,335
Public authorities .....	75,800	51,646
Water department .....	29,606	19,686
Neal #4 credits .....	284,227	281,832
Diesel credits .....	226,843	224,698
Consumer penalties .....	5,658	5,871
Miscellaneous income .....	<u>34,853</u>	<u>25,110</u>
TOTAL OPERATING REVENUES	<u>3,572,904</u>	<u>3,554,239</u>
OPERATING EXPENSES:		
Direct costs .....	1,602,053	1,555,856
Operating expenses .....	471,639	449,500
Administrative expenses .....	<u>992,268</u>	<u>955,761</u>
TOTAL OPERATING EXPENSES	<u>3,065,960</u>	<u>2,961,117</u>
OPERATING INCOME	<u>506,944</u>	<u>593,122</u>
NON-OPERATING INCOME (EXPENSE):		
Interest income .....	7,135	10,393
Other income .....	6,156	8,538
Loss on sale of assets .....		(159)
Interest expense .....	<u>(188,325)</u>	<u>(180,767)</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(175,034)</u>	<u>(161,995)</u>
CHANGE IN NET ASSETS	331,910	431,127
NET ASSETS - BEGINNING OF YEAR .....	<u>9,534,763</u>	<u>9,103,636</u>
NET ASSETS - END OF YEAR	<u>\$ 9,866,673</u>	<u>\$ 9,534,763</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF FUND NET ASSETS  
JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

ASSETS

	Electric Fund	Water Fund	Total 2012	Total 2011
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents:				
Unrestricted, undesignated .....	\$ 478,142	\$ (14,829)	\$ 463,313	\$ 579,744
Board designated:				
Improvement and extension .....	53,352	99,037	152,389	202,740
Vehicle and equipment funds .....	146,870	35,932	182,802	157,796
Fuel oil fund .....	12,787		12,787	12,739
Community development fund .....	81,448		81,448	66,159
Total cash and cash equivalents	772,599	120,140	892,739	1,019,178
Accounts receivable .....	281,596	144,093	425,689	368,848
Inventory .....	479,332	39,045	518,377	550,731
Prepaid expenses .....	49,887	61,734	111,621	53,291
Other receivables .....		629	629	47,064
<b>TOTAL CURRENT ASSETS</b>	<b>1,583,414</b>	<b>365,641</b>	<b>1,949,055</b>	<b>2,039,112</b>
<b>NONCURRENT ASSETS:</b>				
Other assets:				
Purchased service rights - at cost .....	13,470		13,470	13,470
CTS - acquisition costs (net) .....	6,231		6,231	13,029
Bond issue cost (net) .....	3,876		3,876	4,825
Total other assets	23,577		23,577	31,324
Restricted assets:				
Consumers' deposit fund .....	52,862	6,602	59,464	59,092
Revenue bond sinking fund .....	37,994	26,636	64,630	64,388
Principal and interest reserve .....		116,053	116,053	115,618
CTS - improvement fund .....	252,255		252,255	153,239
Sewer fund - district and city .....				2,755
Emission allowances .....	17,669		17,669	17,072
Whelan #2 Reserve .....	28,131		28,131	25,171
Neal #4 .....	24,885		24,885	
Engine maintenance .....	20,222		20,222	25,113
Total restricted assets	434,018	149,291	583,309	462,448
<b>TOTAL NONCURRENT ASSETS</b>	<b>457,595</b>	<b>149,291</b>	<b>606,886</b>	<b>493,772</b>
<b>CAPITAL ASSETS:</b>				
Capital assets .....	14,266,251	7,304,117	21,570,368	21,525,394
Accumulated depreciation .....	(6,993,068)	(3,136,474)	(10,129,542)	(9,617,984)
<b>NET CAPITAL ASSETS</b>	<b>7,273,183</b>	<b>4,167,643</b>	<b>11,440,826</b>	<b>11,907,410</b>
<b>TOTAL ASSETS</b>	<b>\$ 9,314,192</b>	<b>\$ 4,682,575</b>	<b>\$13,996,767</b>	<b>\$14,440,294</b>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF FUND NET ASSETS - Continued  
JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

LIABILITIES AND FUND NET ASSETS

	Electric Fund	Water Fund	Total 2012	Total 2011
CURRENT LIABILITIES:				
Accounts payable .....	\$ 148,271	\$ 21,689	\$ 169,960	\$ 307,773
Accrued employee benefits .....	475	(1,307)	(832)	28,626
Accrued interest .....				14,473
Accrued payroll .....	18,901	13,050	31,951	21,623
Accrued payroll taxes .....	1,741	1,124	2,865	5,221
Accrued sales tax .....	5,280	3,738	9,018	8,584
Accrued property tax .....	15,969		15,969	14,254
Accrued wheeling .....	8,625		8,625	8,604
Consumers' deposits .....	34,038	6,519	40,557	41,866
Current portion long-term debt .....	<u>355,105</u>	<u>225,598</u>	<u>580,703</u>	<u>485,772</u>
TOTAL CURRENT LIABILITIES	<u>588,405</u>	<u>270,411</u>	<u>858,816</u>	<u>936,796</u>
LONG-TERM DEBT (Note 4):				
Revenue capital notes payable .....	2,232,854	1,610,669	3,843,523	4,454,507
Less current portion above .....	(355,105)	(225,598)	(580,703)	(485,772)
Net OPEB liability .....	<u>4,821</u>	<u>3,637</u>	<u>8,458</u>	
TOTAL LONG-TERM DEBT	<u>1,882,570</u>	<u>1,388,708</u>	<u>3,271,278</u>	<u>3,968,735</u>
TOTAL LIABILITIES	<u>2,470,975</u>	<u>1,659,119</u>	<u>4,130,094</u>	<u>4,905,531</u>
FUND NET ASSETS:				
Invested in capital assets - net of related debt ....	<u>5,040,329</u>	<u>2,556,974</u>	<u>7,597,303</u>	<u>7,452,904</u>
Restricted for:				
Debt service .....	37,994	26,636	64,630	64,388
Capital projects .....	<u>252,255</u>		<u>252,255</u>	<u>153,239</u>
Total restricted	<u>290,249</u>	<u>26,636</u>	<u>316,885</u>	<u>217,627</u>
Unrestricted .....	<u>1,512,639</u>	<u>439,846</u>	<u>1,952,485</u>	<u>1,864,232</u>
TOTAL FUND NET ASSETS	<u>6,843,217</u>	<u>3,023,456</u>	<u>9,866,673</u>	<u>9,534,763</u>
TOTAL LIABILITIES AND FUND NET ASSETS	<u>\$ 9,314,192</u>	<u>\$ 4,682,575</u>	<u>\$13,996,767</u>	<u>\$14,440,294</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

	Electric Fund	Water Fund	Total 2012	Total 2011
OPERATING REVENUES:				
Residential .....	\$ 1,177,886	\$ 375,572	\$ 1,553,458	\$ 1,566,260
Commercial .....	490,742	382,083	872,825	860,383
Demand .....	477,144		477,144	508,696
Tank water sales .....		709	709	722
Meter sales .....		11,781	11,781	9,335
Public authorities .....	75,800		75,800	51,646
Water department .....	29,606		29,606	19,686
Neal #4 credits .....	284,227		284,227	281,832
Diesel credits .....	226,843		226,843	224,698
Consumer penalties .....	4,636	1,022	5,658	5,871
Miscellaneous income .....	21,520	13,333	34,853	25,110
TOTAL OPERATING REVENUES	<u>2,788,404</u>	<u>784,500</u>	<u>3,572,904</u>	<u>3,554,239</u>
OPERATING EXPENSES:				
Direct costs .....	1,493,080	108,973	1,602,053	1,555,856
Operating expenses .....	294,930	176,709	471,639	449,500
Administrative expenses .....	660,431	331,837	992,268	955,761
TOTAL OPERATING EXPENSES	<u>2,448,441</u>	<u>617,519</u>	<u>3,065,960</u>	<u>2,961,117</u>
OPERATING INCOME	<u>339,963</u>	<u>166,981</u>	<u>506,944</u>	<u>593,122</u>
NON-OPERATING INCOME (EXPENSE):				
Interest income .....	5,975	1,160	7,135	10,393
Other income .....	3,669	2,487	6,156	8,538
Loss on sale of assets .....				(159)
Interest expense .....	(136,399)	(51,926)	(188,325)	(180,767)
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(126,755)</u>	<u>(48,279)</u>	<u>(175,034)</u>	<u>(161,995)</u>
CHANGE IN FUND NET ASSETS	213,208	118,702	331,910	431,127
FUND NET ASSETS - BEGINNING OF YEAR .....	<u>6,630,009</u>	<u>2,904,754</u>	<u>9,534,763</u>	<u>9,103,636</u>
FUND NET ASSETS - END OF YEAR	<u>\$ 6,843,217</u>	<u>\$ 3,023,456</u>	<u>\$ 9,866,673</u>	<u>\$ 9,534,763</u>

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

	Electric Fund	Water Fund	Total 2012	Total 2011
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers .....	\$2,819,836	\$ 743,819	\$3,563,655	\$3,577,342
Cash paid to suppliers .....	(2,139,739)	(304,357)	(2,444,096)	(1,999,906)
Cash paid to employees .....	<u>(232,412)</u>	<u>(148,791)</u>	<u>(381,203)</u>	<u>(400,509)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>447,685</u>	<u>290,671</u>	<u>738,356</u>	<u>1,176,927</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets ....	(1,241,815)	(60,643)	(1,302,458)	(1,069,531)
Contributions received from developers .....	1,245,433		1,245,433	
Revenue bond principal repayment .....	(1,585,685)	(236,399)	(1,822,084)	(465,276)
Revenue bond proceeds .....	1,211,100		1,211,100	129,082
Interest paid .....	(146,305)	(56,493)	(202,798)	(184,072)
Restricted bond proceeds utilized .....				<u>326,561</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(517,272)</u>	<u>(353,535)</u>	<u>(870,807)</u>	<u>(1,263,236)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest reinvested .....	(142)	(7,137)	(7,279)	(897)
Interest received from investments .....	5,975	1,160	7,135	10,393
Cash received from other income .....	<u>3,669</u>	<u>2,487</u>	<u>6,156</u>	<u>8,538</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>9,502</u>	<u>(3,490)</u>	<u>6,012</u>	<u>18,034</u>
NET DECREASE IN CASH	(60,085)	(66,354)	(126,439)	(68,275)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR .....	<u>832,684</u>	<u>186,494</u>	<u>1,019,178</u>	<u>1,087,453</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 772,599</u>	<u>\$ 120,140</u>	<u>\$ 892,739</u>	<u>\$1,019,178</u>



MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

	Electric Fund	Water Fund	Total 2012	Total 2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income .....	\$ 339,963	\$ 166,981	\$ 506,944	\$ 593,122
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation .....	331,134	192,475	523,609	495,108
Amortization .....	6,798		6,798	6,798
(Increase) decrease in operating assets:				
Accounts receivable .....	(16,606)	(40,235)	(56,841)	3,841
Inventory .....	34,410	(2,056)	32,354	(2,541)
Prepaid expenses .....	(21,350)	(36,980)	(58,330)	(11,071)
Other receivables .....	46,881	(446)	46,435	19,848
Consumer deposits .....	6,230		6,230	59
Bond issuance costs .....	949		949	949
CTS improvement fund .....	(99,016)		(99,016)	35,733
Sewer fund - district and city .....	2,755		2,755	(487)
Whelon #2 reserves .....	(2,960)		(2,960)	(8,627)
Emission allowances .....	(597)		(597)	(17,072)
Neal #4 .....	(24,885)		(24,885)	
Engine Maintenance .....	4,891		4,891	(11,097)
Increase (decrease) in operating liabilities:				
Accounts payable .....	(148,708)	10,895	(137,813)	67,845
Accrued employee benefits .....	(14,832)	(14,626)	(29,458)	7,898
Accrued payroll taxes .....	(1,562)	(794)	(2,356)	(409)
Accrued payroll .....	5,483	4,845	10,328	(1,350)
Accrued sales tax .....	(22)	456	434	(1,562)
Accrued property tax .....	1,715		1,715	179
Accrued wheeling .....	21		21	(79)
Accrued OPEB .....	4,821	3,637	8,458	
Consumer deposits .....	(7,828)	6,519	(1,309)	(158)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 447,685</u>	<u>\$ 290,671</u>	<u>\$ 738,356</u>	<u>\$ 1,176,927</u>

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The financial statements of Milford Municipal Utilities (Utilities) include the Electric and Water enterprise funds which provide services to the residents of the City of Milford. Milford Municipal Utilities is governed by a five-member Board of Trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets reports three categories of net assets:

Invested in Capital Assets, Net of Related Debt - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets - result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Fund Financial Statements**

Major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities report the following major enterprise funds:

Electric Fund - The Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of six months or less.

Accounts Receivable

Accounts receivable and revenue are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectable are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2012.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are stated at cost and set forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling, and transportation has been capitalized.

Replacements and betterments of capital assets are included in capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant .....	20 - 50
Equipment .....	7 - 20
Distribution System .....	20 - 67

Other Assets

Common Transmission System (CTS) acquisition costs are being amortized on a straight-line basis over 25 years, and are presented at the net value.

Loan costs related to issued capital notes are being amortized on a straight-line basis over 7 years, which approximates the effective interest method, and are presented at the net value.

Current Liabilities

Accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Utilities' financial statements for the year ended June 30, 2011 from which the summarized information was derived.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford.

Subsequent Events

The Utilities has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

**2. CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS**

The Utilities' deposits in banks at June 30, 2012, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest Rate Risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utilities.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**3. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2012 was as follows:

	Electric Plant			
<u>Electric Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land .....	\$ 58,654			\$ 58,654
Construction in progress .....	<u>2,497,734</u>	<u>\$1,066,790</u>	<u>\$3,564,524</u>	
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>2,556,388</u>	<u>1,066,790</u>	<u>3,564,524</u>	<u>58,654</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings .....	401,592	6,954		408,546
Machinery and equipment .....	739,776	56,883		796,659
Accessory electric equipment	1,183,487	2,182,928		3,366,415
Neal #4 .....	1,304,912	124,373	3,574	1,425,711
Common transmission system	1,813,099	48,124		1,861,223
Distribution Plant:				
Distribution facilities .....	5,454,108	73,802		5,527,910
Street lights and signal systems	270,031	1,052		271,083
General Plant:				
Transportation equipment .....	412,843			412,843
Other equipment .....	<u>145,683</u>		<u>8,476</u>	<u>137,207</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	11,725,531	2,494,116	12,050	14,207,597
Less accumulated depreciation ....	<u>6,673,984</u>	<u>331,134</u>	<u>12,050</u>	<u>6,993,068</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>5,051,547</u>	<u>2,162,982</u>		<u>7,214,529</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 7,607,935</u>	<u>\$3,229,772</u>	<u>\$3,576,574</u>	<u>\$ 7,273,183</u>

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**3. CAPITAL ASSETS - Continued**

Capital assets activity for the year ended June 30, 2012 was as follows:

	Water Utility Plant			
<u>Water Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land .....	\$ 58,144			\$ 58,144
Construction in progress .....	<u>345,916</u>	<u>          </u>	<u>\$ 345,916</u>	<u>          </u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>404,060</u>	<u>          </u>	<u>345,916</u>	<u>58,144</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings .....	3,237,261			3,237,261
Intakes .....	85,410	\$ 17,286		102,696
Equipment .....	1,134,504	3,447		1,137,951
Mains .....	1,212,805	351,790		1,564,595
Wells .....	198,130			198,130
Storage and Distribution Plant:				
Towers .....	481,619			481,619
Mains, hydrants, and service ..	219,740			219,740
Meters .....	244,196	8,335		252,531
General Plant:				
Tools and work equipment .....	<u>25,749</u>	<u>25,701</u>	<u>          </u>	<u>51,450</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	6,839,414	406,559		7,245,973
Less accumulated depreciation ....	<u>2,943,999</u>	<u>192,475</u>	<u>          </u>	<u>3,136,474</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>3,895,415</u>	<u>214,084</u>	<u>          </u>	<u>4,109,499</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 4,299,475</u>	<u>\$ 214,084</u>	<u>\$ 345,916</u>	<u>\$ 4,167,643</u>
TOTAL BUSINESS TYPE CAPITAL ASSETS - NET	<u>\$11,907,410</u>	<u>\$3,443,856</u>	<u>\$3,910,440</u>	<u>\$11,440,826</u>

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2012**

**4. LONG-TERM DEBT**

A summary of the changes in long-term debt for the year ended June 30, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Electric Fund:					
Series 2008 revenue notes .....	\$1,575,525		\$ 162,905	\$1,412,620	\$138,636
Series 2009 revenue notes .....	902,832		177,347	725,485	170,283
Series 2011 revenue notes .....	<u>129,082</u>	<u>\$1,211,100</u>	<u>1,245,433</u>	<u>94,749</u>	<u>46,186</u>
Total electric revenue notes	<u>2,607,439</u>	<u>1,211,100</u>	<u>1,585,685</u>	<u>2,232,854</u>	<u>355,105</u>
Water Fund:					
Series 2003 revenue notes .....	656,488		87,124	569,364	84,562
Series 2005 revenue notes .....	<u>1,190,580</u>		<u>149,275</u>	<u>1,041,305</u>	<u>141,036</u>
Total water revenue notes	<u>1,847,068</u>		<u>236,399</u>	<u>1,610,669</u>	<u>225,598</u>
 TOTAL REVENUE NOTES	 <u>\$4,454,507</u>	 <u>\$1,211,100</u>	 <u>\$1,822,084</u>	 <u>\$3,843,523</u>	 <u>\$580,703</u>

The resolutions concerning the issuance of the above revenue notes all include requirements for the Utilities to maintain Sinking and Reserve Funds. United Community Bank, the sole holder of the notes, has waived these fund requirements. The notes also include requirements that user rates will be established to produce and maintain net revenues at a level not less than 125% of the amount of principal and interest on notes falling due in the same year. During the year ended June 30, 2012, the Water Utility did not comply with this requirement.

**Electric Fund**

During the year ended June 30, 2008, the Utilities issued electric revenue notes (Series 2008) in the amount of \$1,900,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes accrue interest of 4.95% with monthly payments required of \$14,965, including interest and mature on January 1, 2023. The interest rate is estimated to change to 3.45% on January 1, 2013, with monthly payments remaining at \$14,965.

During the year ended June 30, 2010, the Utilities issued electric revenue notes (Series 2009) in the amount of \$1,200,000 for the construction costs related to improvements and extension to the Municipal Electric Utility and to refund the Series 2007 Revenue Notes. The notes accrue interest of 4.00% with monthly payments required of \$16,381, including interest, and mature July 1, 2016.

During the year ended June 30, 2011, the Utilities issued electric revenue notes (Series 2011) in the amount of \$2,243,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes allow the Utilities to request advances, which will accrue interest of 3.75%, and requires interest only payments until November 1, 2012. Monthly payments of principal and interest will commence on December 1, 2012 and end on May 1, 2026. The notes will accrue a five-year adjustable interest rate based on five-year U.S. Treasury Bonds maturing most closely to July 1, 2016 and July 1, 2021, respectively, plus 125 basis points.



MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**4. LONG-TERM DEBT - Continued**

**Electric Fund - Continued**

The Series 2008, 2009, and 2011 notes are secured by future revenues of the Electric Utility.

A summary of the Electric Fund's June 30, 2012 long-term indebtedness with established principal repayments is as follows:

	<u>Series 2008 Revenue Notes</u>		<u>Series 2009 Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013 .....	\$ 138,636	\$ 40,949	\$ 170,283	\$ 26,287
2014 .....	136,891	42,694	177,318	19,251
2015 .....	141,689	37,896	184,645	11,925
2016 .....	146,655	32,929	193,239	4,295
2017 .....	151,796	27,789		
2018 - 2022 .....	<u>696,953</u>	<u>56,495</u>		
Total	<u>\$1,412,620</u>	<u>\$238,752</u>	<u>\$ 725,485</u>	<u>\$ 61,758</u>

  

	<u>Series 2011 Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2013 .....	\$ 46,186	\$ 1,641
2014 .....	48,563	626
2015 .....		
2016 .....		
2017 .....		
2018 - 2022 .....		
Total	<u>\$ 94,749</u>	<u>\$ 2,267</u>

**Water Fund**

On June 24, 2003, the Utilities issued a water revenue note (Series 2003), in the amount of \$1,200,000. The note accrues a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2008 and July 1, 2013, respectively, plus 100 basis points. The rate adjusted from 3.50% to 4.34% on July 1, 2008. The note requires monthly payments of \$8,966, including interest, and matures February 1, 2019.

On May 25, 2005 the Utilities issued water revenue notes (Series 2005) in the amount of \$1,800,000. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2010 and July 1, 2013, respectively, plus 25 basis points. The rate adjusted from 4.25% to 2.21% on July 1, 2010. The notes require monthly payments of \$13,552, including interest, and mature July 1, 2013.

The Series 2003 and Series 2005 notes are secured by future net revenues of the Water Utility.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**4. LONG-TERM DEBT - Continued**

**Water Fund - Continued**

A summary of the Water Fund's June 30, 2012 long-term indebtedness is as follows:

	<u>Series 2003 Revenue Notes</u>		<u>Series 2005 Revenue Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013 .....	\$ 84,562	\$ 21,262	\$ 141,036	\$ 19,911
2014 .....	87,987	19,616	143,920	18,706
2015 .....	91,883	15,720	147,133	15,493
2016 .....	95,951	11,652	150,418	12,208
2017 .....	100,199	7,404	153,776	8,850
2018 - 2020 .....	<u>108,782</u>	<u>3,010</u>	<u>305,022</u>	<u>7,326</u>
Total	<u>\$ 569,364</u>	<u>\$ 78,664</u>	<u>\$1,041,305</u>	<u>\$ 82,494</u>

**5. PENSION AND RETIREMENT BENEFITS**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary, and the Utilities are required to contribute 8.07% of covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$33,861, \$26,946, and \$25,963, respectively, equal to the required contributions for each year.

**6. RATES**

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Effective June 20, 2011, the Electric Utility increased user rates for all consumption by 5% per year for three years.

Effective December 17, 2011, the Water Utility will increase user rates for all consumption 10% per year for three years.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**7. LEASES**

Under a joint ownership agreement with other utilities, the Electric Utility has a 0.347% undivided interest in a 640 MW electric generation station known as George Neal Generating Station No. 4. The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The lease of the Neal 4 plant is a long-term commitment based on capacity, and the revenues from such leases are included in operating income. The amount is determined by a formula based on usage and totaled \$281,101 for 2012.

The Electric Utility's 0.347% ownership interest in George Neal Generating Station No. 4 represents a total investment of \$1,425,711 included in utility plant in service with \$1,220,614 included in accumulated depreciation. Operating costs associated with this plant and depreciation are reflected in the statement of activities.

**8. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Plan Description. The Utilities operate a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their family. There are seven active members and one retired member in the Plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the Utilities. The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and NET OPEB Obligation. The Utilities' annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**8. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

The following table shows the components of the Utility's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan, and changes in the Utility's net OPEB obligation:

	<u>2012</u>
Annual required contribution .....	\$ 8,458
Interest on net OPEB obligation .....	-
Adjustment to annual required contribution .....	-
Annual OPEB cost (expense)	<u>8,458</u>
Contributions made .....	-
Increase in net OPEB obligation	<u>8,458</u>
Net OPEB obligation - beginning of year .....	-
Net OPEB obligation - end of year	<u>\$ 8,458</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the Utilities made no contributions to the medical plan. Plan members eligible for benefits contributed 100% of the premium cost.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 8,458	0%	\$ 8,458

**Funded Status and Funding Progress.** As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$42,060, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$42,060. The covered payroll (annual payroll of active employees covered by the plan) was \$406,729 and the ratio of the UAAL to cover payroll was 10.34%. As of June 30, 2012, there were no trust fund assets.

**Actuarial Methods and Assumptions.** Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**8. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions included a 2.5% interest discount rate. The projected annual medical trend rate is 6%, with an inflation rate of 0% assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from IPERS and applying the termination factors used by IPERS. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

**9. COMPENSATED ABSENCES**

Employees of the Utilities accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred in the government-wide and enterprise fund financial statements and computed based on rates of pay in effect at June 30, 2012. The Utilities' approximate liability for earned vacation and compensatory time payable to employees at June 30, 2012 is \$24,300.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement, or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

**10. RELATED PARTY TRANSACTIONS**

The Utilities had business transactions between the Utilities and a Utilities official totaling \$2,113 during the year ended June 30, 2012.

**11. RISK MANAGEMENT**

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2012

**12. COMMITMENTS**

As a .347% owner of George Neal Generating Station No. 4, the Electric Utility is a part of a construction contract totaling \$222,835,357 for a Baghouse Scrubber. As of June 30, 2012, costs of \$26,973,524 have been incurred on the project. The Electric Utility's portion of the expenses to date was \$92,475 and is included in capital assets.

## **REQUIRED SUPPLEMENTARY INFORMATION**

MILFORD MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Actual</u>	<u>Original/ Final Budget</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUE:			
Charges for services .....	\$3,572,904	\$3,706,500	\$ (133,596)
Non-operating .....	<u>13,291</u>	<u>22,000</u>	<u>(8,709)</u>
TOTAL REVENUE	<u>3,586,195</u>	<u>3,728,500</u>	<u>(142,305)</u>
EXPENSES:			
Electric .....	2,584,840	2,792,500	207,660
Water .....	<u>669,445</u>	<u>781,000</u>	<u>111,555</u>
TOTAL EXPENSES	<u>3,254,285</u>	<u>3,573,500</u>	<u>319,215</u>
NET CHANGE IN NET ASSETS	331,910	155,000	<u>\$ 176,910</u>
NET ASSETS AT BEGINNING OF YEAR .....	<u>9,534,763</u>	<u>9,534,763</u>	
NET ASSETS AT END OF YEAR	<u>\$9,866,673</u>	<u>\$9,689,763</u>	



MILFORD MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the Utilities.

In accordance with the Code of Iowa, the Milford Municipal Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. All Utilities' disbursements are included in business-type activities function. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

MILFORD MUNICIPAL UTILITIES  
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2012	July 1, 2011	0	\$42,060	\$42,060	0%	\$406,729	10.34%

See Note 8 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

## **SUPPLEMENTARY INFORMATION**

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>DIRECT COSTS:</b>		
Distribution maintenance .....	\$ 10,620	\$ 9,069
Equipment maintenance .....	13,711	16,770
Neal #4 charges - coal, oil, power generator .....	340,771	332,386
Purchased power .....	6,030	6,562
Purchased power - NIMECA .....	711,898	700,527
Purchased power - WAPA .....	392,781	392,182
Wheeling .....	17,269	17,131
<b>TOTAL DIRECT COSTS</b>	<u>1,493,080</u>	<u>1,474,627</u>
<b>OPERATING EXPENSES:</b>		
Salaries .....	242,716	241,342
Small tools and supplies .....	27,501	7,522
Sub-contractor .....	9,157	421
Vehicle expense .....	15,342	26,350
Miscellaneous operating expenses .....	214	31
<b>TOTAL OPERATING EXPENSES</b>	<u>294,930</u>	<u>275,666</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND - Continued  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ADMINISTRATIVE EXPENSES:		
Advertising .....		\$ 90
Amortization .....	\$ 6,798	6,798
Bad debts .....	1,726	4,451
Building maintenance - office .....	8,546	9,698
Building maintenance - mowing .....	4,500	3,784
Community development .....	58,340	18,071
Computer repairs and maintenance .....	11,774	5,686
Computer supplies and programs .....	7,122	4,308
Depreciation .....	331,134	307,533
Director fees .....	3,008	4,221
Dues and subscriptions .....	5,359	5,137
Education and safety .....	4,454	3,704
Employee benefits .....	44,352	37,662
Insurance - general .....	37,204	35,528
Laundry and uniforms .....	601	1,339
Legal and professional .....	13,440	23,952
Maintenance - office equipment .....	195	21
Office supplies .....	5,206	8,545
Payroll taxes - FICA and IPERS .....	39,078	34,358
Postage .....	5,512	5,798
Property taxes .....	17,695	14,433
Energy efficiency .....	33,049	22,663
Supplies .....	324	415
Sales tax paid .....	17,058	69,819
Telephone .....	3,044	3,417
Travel .....	289	806
Utilities and sanitation .....	1,411	1,846
Inventory adjustment .....	(788)	(3,501)
TOTAL ADMINISTRATIVE EXPENSES	<u>660,431</u>	<u>630,582</u>
 TOTAL	 <u>\$2,448,441</u>	 <u>\$2,380,875</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
DIRECT COSTS:		
Distribution maintenance .....	\$ 24,277	\$ 3,168
Equipment maintenance .....	5,547	
Lab .....	11,168	7,623
Plant maintenance .....	5,355	2,854
Product - chlorine and fluoride .....	30,724	32,198
Purchased power .....	31,902	30,466
Sewer charges .....		4,920
TOTAL DIRECT COSTS	<u>108,973</u>	<u>81,229</u>
OPERATING EXPENSES:		
Salaries .....	157,273	157,817
Small tools and supplies .....	3,087	808
Sub-contractor .....	10,326	12,712
Vehicle expense .....	6,016	2,480
Miscellaneous operating expenses .....	7	17
TOTAL OPERATING EXPENSES	<u>176,709</u>	<u>173,834</u>

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND - Continued  
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ADMINISTRATIVE EXPENSES:		
Advertising .....	\$ 500	\$ 90
Bad debts .....	444	1,176
Building maintenance - office .....		643
Community development .....		667
Computer repairs and maintenance .....	4,924	4,787
Computer supplies and programs .....	3,791	
Depreciation .....	192,475	187,575
Director fees .....	3,277	3,392
Dues and subscriptions .....	1,014	823
Education and safety .....	5,282	3,178
Employee benefits .....	34,900	26,017
Insurance - general .....	21,177	19,850
Laundry and uniforms .....	1,470	1,097
Legal and professional .....	6,302	9,494
Maintenance - office equipment .....	195	
Miscellaneous .....	980	
Office supplies .....	5,197	7,774
Payroll taxes - FICA and IPERS .....	26,372	21,701
Postage .....	5,449	5,145
Supplies .....	28	523
Sales tax paid .....	10,245	29,814
Telephone .....	1,704	1,290
Utilities and sanitation .....	5,542	1,704
Inventory adjustment .....	569	(1,561)
TOTAL ADMINISTRATIVE EXPENSES	<u>331,837</u>	<u>325,179</u>
 TOTAL	 <u>\$ 617,519</u>	 <u>\$ 580,242</u>

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited the financial statements of the Milford Municipal Utilities (Utilities) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The management of Milford Municipal Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Milford Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Milford Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a material weakness.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and customers of Milford Municipal Utilities, citizens of the City of Milford, and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Winter, Stone & Co., LLP*

October 19, 2012

MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012

**Part I: Findings Related to the Financial Statements**

**Internal Control Deficiency:**

I-A-12 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were noted.

MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted in the business type activities function.
- II-B-12 Questionable Disbursements - No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-12 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-12 Business Transactions - Business transactions between the Utilities and a Utilities' official are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Studer, Board Member, Owner of Excel Auto Body	Maintenance and repair	\$ 2,113

Recommendation - The transaction exceeds \$1,500 and may represent a conflict of interest. The Utility should consult legal counsel to determine the disposition of these matters.

Response - The Utilities' attorney will be asked to comment on this transaction.

Conclusion - Response accepted.

- II-E-12 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-12 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-12 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-H-12 Revenue Notes - The Utilities has not complied with a water revenue note resolution. The Utility does not meet the sufficiency of rates required by bond resolutions.

Recommendation - The Utility should increase rates sufficient enough to meet the bond resolution requirements.

Response - We have established rate increases of 10% per year for the next three years to bring rates in compliance with bond resolution requirements.

Conclusion - Response accepted.